

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-04-1
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**ORDER SETTING TEMPORARY RATES, APPROVING CORPORATE
UNDERTAKING, AND REQUIRING ADDITIONAL INFORMATION**

(Issued June 11, 2004)

On March 15, 2004, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed tariffs for a general revenue increase in temporary and final electric rates. IPL proposed a temporary increase, TF-04-79 and TF-04-80, which would produce additional annual revenue of approximately \$105.6 million and a permanent increase, TF-04-81 and TF-04-82, which would produce additional annual revenue of approximately \$149.2 million. On April 13, 2004, the Board suspended the proposed tariffs and docketed them for investigation in a proceeding identified as Docket No. RPU-04-1.

On April 12, 2004, the Iowa Consumers Coalition (ICC) filed an objection to the request for temporary rates. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) and the Community Coalition for Rate Fairness (CCRF) each filed an objection to the request for temporary rates on April 14, 2004. IPL subsequently filed timely responses to the objections. In its

responses, IPL reduced the temporary rate increase request to approximately \$100.9 million.

Iowa Code § 476.6(13) (2003) controls the manner in which the Board sets temporary rates. The Board's decision on temporary rates must be issued within 90 days after the date of filing, and the decision is effective immediately. That statute also provides, in part:

Upon the request of a public utility, the board shall, when required by this subsection, grant the public utility temporary authority to place in effect any or all of the suspended rates, charges, schedules or regulations by filing with the board a bond or other undertaking approved by the board conditioned upon the refund in a manner to be prescribed by the board of any amounts collected in excess of the amounts which would have been collected under rates, charges, schedules or regulations finally approved by the board. In determining the portion of the new or changed rates, charges, schedules or regulations to be placed in effect prior to a final decision, the board shall apply previously established regulatory principles and shall, at a minimum, permit rates and charges which will allow the utility the opportunity to earn a return on common stock equity equal to that which the board held reasonable and just in the most recent rate case involving the same utility or the same type of utility service, provided that if the most recent final decision of the board in an applicable rate case was rendered more than twelve months prior to the day of filing of the request for temporary rates, the board shall in addition consider financial market data that is filed or that is otherwise available to the board and shall adjust the rate of return on common stock equity that was approved in that decision upward or downward as necessary to reflect current conditions.

In Northwestern Bell v. Iowa State Commerce Commission, 359 N.W.2d 491, 496 (Iowa 1984), the Iowa Supreme Court interpreted this statute and stated, in part:

[I]n the 1983 Code the Assembly telescoped the temporary and permanent rate steps into one procedure, evidently to end the prior problem of a utility's placing its new rates in effect in temporary form under bond and then having little motivation to press forward with the permanent rate aspect. The General Assembly has ended the ability of the utility itself to set the temporary rates in the usual situation; the commission sets them and proceeds to the permanent rates. If instead the utility could obtain judicial review of temporary rates and obtain its desired rates from the courts, as in this case, its motivation to seek permanent rates would be dulled and fulfillment of the legislative scheme would be hampered. To minimize the possibility of harm to the utilities, the legislature started time running from the original filing as to both temporary and permanent rates . . .

While permanent rates may ultimately be set higher than the commission's temporary rates, by shortening the time for the commission's final decision to ten months and by streamlining the temporary and permanent rate procedure, the Assembly has demonstrated its desire to minimize utility hardship.

The Board, therefore, is directed to permit IPL to collect rates which, at a minimum, allow the return on common equity equal to that which was held reasonable in the most recent rate case involving the same utility or same type of utility service, provided the Board's decision was rendered within 12 months prior to IPL's request for temporary rates. In addition, the Board is directed to apply established regulatory principles in considering any proposed adjustments. Since the legislature directs the Board to establish a temporary rate level by applying established regulatory principles rather than examining an evidentiary record, it is not appropriate for the Board to make detailed findings of fact on each individual issue at this juncture.

The respective objections of the Consumer Advocate, the CCRF, and the ICC to IPL's request for temporary rates and IPL's replies to the objections narrowed the issues to be considered in setting temporary rates. The remaining issues relate to the Emery generating station (Emery), a depreciation study, significant load and rate selection changes, decommissioning, capital structure, and rate design. In addition to the foregoing issues, the Board will address IPL's request for approval of its corporate undertaking. The issues to be addressed are:

- I. EMERY
- II. DEPRECIATION STUDY
- III. SIGNIFICANT LOAD AND RATE SELECTION CHANGES
- IV. DECOMMISSIONING
- V. CAPITAL STRUCTURE
- VI. RATE DESIGN
- VII. CORPORATE UNDERTAKING

The Board notes that return on common equity is not disputed for temporary rate purposes. In IPL's last electric rate case, Docket No. RPU-02-3, the Board issued its order on April 15, 2003, and granted IPL a return on common equity of 11.15 percent. Because that order was issued less than 12 months ago, IPL based its temporary rate request on an 11.15 percent return on common equity for the non-Emery Generating Station (Emery) portion of its rate base. A 12.23 percent return on equity was used for Emery, consistent with the ratemaking principles established by the Board in Docket No. RPU-02-6.

I. EMERY

In any discussion regarding inclusion of Emery costs in rate base, it is important to examine the interplay between this rate case and the prior docket involving Emery, Docket No. RPU-02-6. In Docket No. RPU-02-6, the Board approved advance ratemaking principles for Emery. Iowa Code § 476.53, which provides for advanced ratemaking principles, was passed by the General Assembly during the 2001 legislative session as part of House File 577. This section provides that when qualifying new electric generation is constructed by a rate-regulated public utility, upon request the Board shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates.

Section 476.53(1) states that the General Assembly's intent in enacting the legislation is to "attract the development of electric power generating and transmission facilities within the state . . ." The legislation gives the utilities the regulatory certainty necessary to proceed with large generating plant investments. At the same time, Iowa ratepayers are less vulnerable to potential electric shortages and price spikes such as were experienced in California, due at least in part to heavy reliance on purchased power imported from out-of-state. The costs of these large investments, which are made to provide electric service to ratepayers for several decades, are recovered from ratepayers. Emery was the second generating plant built in Iowa to qualify under section 476.53.

As the Board noted in Docket No. RPU-02-6, the decision of the Board in a ratemaking principles proceeding has more long-term impact than perhaps any other type of decision the it makes. The reason that ratemaking principle proceedings are so important is that the statute provides that the ratemaking principles established in such a proceeding shall be binding with regard to the specific electric power generating facility in any subsequent rate proceeding. For example, the decision regarding Emery established the return on equity to be applied to the plant. The ratemaking principles statute that emerged from House File 577 changed regulation in Iowa, and the binding decisions made in Docket No. RPU-02-6 cannot be revisited in a subsequent docket.

On May 15, 2004, subsequent to the filing of objections and responses to temporary rates, IPL filed an affidavit of its Vice-President-Generation, attesting that Emery was placed into commercial operation on May 15, 2004, in conformance with the accreditation standards established by the Mid-America Interconnected Network, Inc. Because Emery is now in-service, the Board no longer needs to consider a two-step temporary rate process like the one used for Louisa Generating Station in Docket No. RPU-83-24, Iowa Power and Light Company. Even though Emery is in-service, the ICC objects to inclusion of Emery costs in temporary rates, because there has been no prudence review of Emery costs. Consumer Advocate questions whether it is appropriate to include Emery costs until final costs have been verified, although Consumer Advocate has not adjusted IPL's temporary rate request downward for exclusion of any of the Emery costs.

The ICC's argument that a prudence review must take place before inclusion of Emery costs in temporary rates is contrary to Board precedent. As the Board has noted, "[s]ince the legislature directs the Board to establish a temporary rate level by applying established regulatory principles rather than examining an evidentiary record, it is not appropriate for the Board to make detailed findings of fact on each individual issue." Interstate Power and Light Company, "Order Setting Temporary Rates, Approving Corporate Undertaking, and Requiring Additional Information," Docket No. RPU-02-3 (6/27/02). Inclusion of Emery costs is consistent with the Board's temporary rate decision in Iowa-American Water Company, Docket No. RPU-01-4 (7/16/01). In that order, the Board allowed inclusion in rate base of capital projects that were completed and providing service by the date of the temporary order.

In addition, adoption of the ICC's prudence argument could be considered as a collateral attack on the Board's ratemaking principles decision issued with respect to Emery on September 17, 2002, in Docket No. RPU-02-6. The settlement of that docket, between Consumer Advocate and IPL and approved by the Board, provided that Emery would be included when determining IPL's first temporary rates effective after Emery was placed in-service. It is important to note that as a condition precedent for approving ratemaking principles, the Board had to make a determination that IPL had considered other sources for long-term supply and that Emery was reasonable when compared to other feasible alternative sources of supply. Iowa Code § 476.53(3)"c." The ICC's contention that there should be a

prudence review on whether IPL properly evaluated the impact of changing natural gas markets prior to inclusion of Emery in IPL's temporary rates is without merit.

While Consumer Advocate did not exclude Emery costs from its schedules, Consumer Advocate raised the issue of whether Emery costs must be "verifiable" to be included in temporary rates. In the Iowa-American temporary rate order referred to above, the Board allowed cost estimates to be used for temporary rates. The time between temporary rates and the rate case hearing provide adequate time for the parties to conduct an investigation into the costs and determine if final costs are consistent with the estimates. Disallowance of these costs because all final numbers are not available would be contrary to the ratemaking principles settlement involving Emery, which had as one of its cornerstones the mitigation of regulatory lag.

Emery is in-service providing benefits to customers. It is appropriate to allow IPL's Emery adjustment for temporary rates.

II. DEPRECIATION STUDY

Consumer Advocate objects to IPL's pro forma adjustment to increase depreciation expense, arguing that it is based on a new depreciation study. For temporary rates, Consumer Advocate uses test-year depreciation expense.

IPL claims the adjustment is not based on a "new" study but on an update of the prior study, which indicated a change in depreciation rates was necessary for every functional area examined. IPL said its adjustment was calculated using test year balances at the revised rates from the depreciation update.

The proposed adjustment is more than simply including current investments in the depreciation schedules pursuant to the methodology used in the last rate case. From the information IPL submitted, the depreciation rates themselves appear to have been revised. While IPL argues that these revisions are pursuant to a methodology the Board approved, the Board cannot on its face determine that the changes are pursuant to an approved methodology. Changes in depreciation rates suggest a new or significantly revised study. The Board will deny the pro forma increase for temporary rates.

III. SIGNIFICANT LOAD AND RATE SELECTION CHANGES

IPL proposes two pro forma revenue and expense reduction adjustments. The first reflects significant net load reductions by 18 large customers. The second reflects revenues lost from customers electing to participate in IPL's Day-Ahead Hourly Pricing (DAHP) pilot project. The ICC opposed both adjustments. Consumer Advocate opposed the adjustment for the DAHP pilot.

IPL's revenue and expense adjustments for significant load changes are consistent with similar adjustments approved in IPL's last rate case, Docket Nos. RPU-02-3 and RPU-02-8. As in the prior dockets, the adjustments are based on an IPL survey of its largest customers, identifying those who have made significant load changes greater than 500 kW per month or 300,000 kWh per month. The most significant change is from a customer who elected self-generation. The adjustments will be approved for temporary rate purposes. The ICC will have an opportunity to

conduct discovery prior to the hearing on final rates to verify the accuracy of the survey.

However, the Board will not approve the \$842,875 revenue adjustment relating to IPL's DAHP pilot project. From the information provided for temporary rates, the revenue loss does not seem to relate to any significant load changes because IPL proposes no corresponding expense reductions. The Board agrees with Consumer Advocate that more analysis is needed in the full rate case before allowing this adjustment.

In approving a recent moratorium on new participants to the pilot project, the Board noted it was approving the moratorium because it appeared there could be revenue losses without offsetting load changes. In that order, the Board required IPL to file an analysis of the DAHP pilot and any proposed changes on or before October 1, 2004. It would be premature to approve any adjustment for temporary rates prior to obtaining the results of this analysis. In particular, this analysis might influence how a DAHP adjustment, if any, is allocated among customer classes. IPL will be required to file its analysis of the DAHP pilot in Docket No. RPU-04-1 prior to commencement of the hearing on October 4 and be prepared to answer Board questions at hearing about the reasons for the DAHP revenue loss.

IV. DECOMMISSIONING

IPL proposed a \$1.4 million pro forma adjustment to test year expense for increased nuclear decommissioning expense. The primary factors driving the

increase are low-level waste burial costs and post 9/11 security requirements. The ICC objects to IPL's increase to decommissioning expense for temporary rates, arguing that it is uncertain whether the nuclear plant license for Duane Arnold Energy Center (DAEC) will be extended. IPL states its adjustment was based upon the approach and study approved by the Board in its last rate case.

While nothing indicates that IPL has made the decision to seek a license extension for DAEC, the Board notes that in the last rate case the methodology approved by the Board assumes that DAEC's license will likely be extended for some period at the appropriate time. The ICC's concerns have been addressed, at least in part, by the methodology approved in the last rate case and the substantive issue can be addressed in the full rate proceeding. The Board will approve IPL's adjustment.

V. CAPITAL STRUCTURE

Consumer Advocate proposed adjustments to IPL's 13-month average capital structure because it believes IPL inappropriately replaced seven series of low-cost preferred stock with high-cost Series B preferred stock. Consumer Advocate cited decisions from three rate cases in the 1980's (Docket Nos. RPU-81-24, RPU-88-6, and RPU-89-9) where the Board said that ratepayers should not bear the burden of repurchase loss through higher capital costs resulting from replacement of lower cost debt or equity with higher cost debt or equity.

IPL argues the Board should not prejudge this issue and that in the full rate case IPL will present evidence showing how ratepayers benefited from redemption of the preferred stock in 2002. The Board agrees. In the rate case decisions cited by Consumer Advocate, the Board's decisions were based on the unique facts and circumstances of each case. IPL should have the opportunity to present evidence of ratepayer benefit resulting from its recent actions. The Board is not persuaded that an adjustment to the standard 13-month capital structure for temporary rates is appropriate. The Board will also not make Consumer Advocate's proposed corresponding adjustment to common equity balance, which was not proposed as a separate adjustment but one that should be made if an adjustment were made for the 2002 preferred equity issuance.

IPL and Consumer Advocate also dispute the double leverage calculation. Alliant Energy Corporation (Alliant), the parent of IPL, retired a \$24 million debt issuance one year early on December 16, 2003, consistent with its strategic plan to reduce debt. IPL in its initial filing incorrectly eliminated this debt issue from its double leverage calculation in September, when in fact the debt issue was not redeemed until December 16. IPL corrected the filing to reflect double leverage in its cost of capital calculation by including Alliant's debt through November 2003.

Consumer Advocate continues to object to the early removal of the \$24 million debt and, therefore, reflects Alliant's debt in its double leverage calculation for the entire 13-month period used to determine capital structure. IPL correctly calculated the 13-month capital structure by removing the debt at the end of November. As with

the preferred stock capital structure discussion, the Board believes arguments on the reasons for the early retirement of debt should be heard in the full rate case and adjustments, if any, made after those arguments are heard. The Board will, therefore, not adjust the 13-month average capital structure to reflect double leverage in December. The Board notes that the difference between the parties' positions, after IPL's corrected filing, is only .002 percent.

VI. RATE DESIGN

As was true in IPL's last electric rate case, the most difficult issue is the allocation of temporary rates among pricing zones. IPL's service territory in Iowa consists of areas formerly served by four utilities. In IPL's last rate case, the Board allocated the rate increase to move rates closer together in IPL's four pricing zones. For residential customers, this was the first base rate increase in the southern zone since 1986; the first base rate increase in the northern zone since 1992; and, the first base rate increase in the IPC zone, which is the former Interstate Power Company service territory, since 1995. Evidence in the case demonstrated that IPL is fully integrated from past mergers and major cost items are no longer distinguishable by predecessor utilities or zone rates. While significant movement towards rate equalization was made, full parity was not achieved because of the Board's efforts to alleviate the impact of any increase on customers in lower-rate zones. Interstate Power and Light Company, "Final Decision and Order," Docket Nos. RPU-02-3, RPU-02-8, ARU-02-1 (4/15/03). For example, if rates had been fully equalized at

that time, southern zone residential customers would have experienced a total increase of almost 57 percent and an average total monthly bill increase of over \$30.

The Board did not order a phase-in of rate equalization in the 2003 order because of the evidence at the hearing that IPL would be filing a substantial rate case within the next year and any phase-in could not be effectuated without information on the full extent of the increase. IPL's ratemaking principles proceeding regarding Emery concluded on September 17, 2002. The Board knew when it issued its final rate case order on April 15, 2003, that there would likely be another rate case in 2004 because the ratemaking principles proceeding contemplated that Emery would be in-service and part of electric rates in June 2004. The Board said:

Given the uncertainty over possible IPL proposed rate increases, any schedule for equalization beyond the present case is speculative. Therefore, the Board will set rates for this proceeding only and will not adopt a specific phase-in approach at this time. However, the Board intends to continue moving towards rate equalization in future IPL rate filings. If those filings do not materialize, the Board may direct IPL to file revenue-neutral equalization proposals on a regular basis. Id. at 81 (emphasis added).

In that order, the Board clearly signaled its intentions to move forward with rate equalization, establishing the regulatory principle in favor of reducing the existing rate disparities while balancing other interests, such as the relative benefit and burden.

The Board recognizes that customers in the higher priced northern and southeastern zones want equalization now and are impatient with the progress towards equalization. The Board understands and appreciates their concerns, but

points out that significant progress has been made toward equalization each time the Board has had an opportunity to address the issue.

The year 1995 was the first time rate equalization, at least for some of IPL's predecessor companies, came before the Board. In that case the Board denied the utility's request for a rate increase and, in fact, ordered a rate reduction, which was applied only to the highest priced zones. IES Utilities Inc., "Final Decision and Order," Docket No. RPU-94-2 (5/12/95).

Subsequent to that case, there were no IPL rate proceedings until Docket No. RPU-02-3, where rate equalization was at issue. Two years after the final decision in Docket No. RPU-94-2, the Board approved a merger that created the forerunner of the current IPL. In that merger proceeding, IPL agreed to a four-year rate freeze. The rate freeze expired in 2002. Rate equalization would have violated the terms of the rate freeze. IES Industries, et al., "Order Terminating Docket," Docket No. SPU-96-6 (9/26/97).

Therefore, IPL's rate case filed in 2002, Docket No. RPU-02-3, was the first opportunity in several years for the Board to address rate equalization issues. As shown by Schedule G attached to the final order in that case, significant progress towards equalization was made, with the ratios for all class rate groups in all zones moving closer to their respective class average rates. As noted earlier, the Board also clearly signaled its intention to continue the movement toward full equalization. The rate disparities are the result of mergers involving four utilities over a number of

years. The disparities were not created overnight, and it is reasonable to believe that the disparities cannot be eliminated without reference to impact.

In allocating temporary rates to the various rate zones and classes in this proceeding, the Board does not want to undo the progress already made towards rate equalization. IPL proposes to spread the temporary revenue increase across customer classes through a uniform percentage adjustment to total class base rate revenues and across rate groups within customer classes on a uniform dollar per kWh basis. While this approach makes small reductions in class rate zone differentials on a percentage basis, it maintains current differentials on a dollar per kWh basis. The ICC, which consists of customers in the lower-priced southern zone, does not object to IPL's temporary rate proposal, but noted this should not be taken as agreement with IPL's proposed step toward rate equalization. The ICC reserved its position on this issue for argument in the full rate case.

The CCRF, whose members are located in the two higher priced zones, the northern and southeastern, objected to IPL's approach. The CCRF proposes making substantially greater progress toward rate zone equalization by giving increases only to the lower-priced zone rates, the southern zone and, to a lesser extent, the IPC zone. The CCRF argues that IPL's proposal does not move toward rate equalization because the actual dollar rate differentials among the IPL rate zones are preserved under IPL's proposal. The CCRF maintains that full equalization should be ordered in this case, beginning with temporary rates, and that under IPL's proposal it is likely

that northern and southeastern zone customers will pay significantly more under temporary rates than they would under fully equalized final rates.

As the Board said in its temporary rate order in IPL's prior electric rate case, allocation of a temporary rate increase that reduces the rate disparity between the four pricing zones is consistent with the regulatory principles the Board has addressed both in its orders and rules. Interstate Power and Light Company, "Order Setting Temporary Rates, Approving Corporate Undertaking, and Requiring Additional Information," Docket No. RPU-02-3 (6/27/02), pp. 10-12. Several factors must be balanced in designing temporary rates.

First, the Board is generally reluctant to make large allocation changes in temporary rates because the temporary rate process, by its nature, does not afford parties the procedural protections available in the full contested case proceeding for the rate case, such as an opportunity for hearing and right of appeal to district court. Iowa Code § 476.6(13); See, Northwestern Bell vs. Iowa State Commerce Comm'n, 359 N.W.2d 491 (Iowa 1984). This must be counterbalanced with the second consideration, that temporary rates should not be allocated in a manner that will exacerbate the rate zone disparities by raising rates in zones not likely to receive a significant increase in final rates. Under the Board's refund methodology used in prior cases, if any temporary increase for customers in certain zones is more than the increase those customers receive in final rates, those customers would not be entitled to any refunds as long as the total amount collected by IPL under temporary rates was less than final rates. See, Office of Consumer Advocate v. Utilities Board,

486 N.W.2d 586, 589 (Iowa 1992). IPL's temporary rate request is almost \$50 million less than the amount requested for final rates. As discussed earlier, ratemaking principles that apply to Emery were established in a prior docket.

The third factor the Board must balance involves fairness issues for customers in all rate zones and consideration of the effect of rate equalization. IPL has four rate zones for some customer classes, but for residential customers there are really only three zones because northern zone and southeastern zone residential rates are the same. On the surface, one might expect that if rates for lower price zones were to increase significantly with full equalization, rates in higher price zones would decrease significantly. However, this is not the case, because IPL has substantially more customers in the higher-priced north and southeast than in the lower-priced southern zone and because of the revenue increase associated with temporary rates. As a result, if the Board ordered immediate, full equalization in temporary rates, the average monthly bill for residential customers in the north and southeast would decrease by only 55 cents, while the average monthly bill for a IPC zone residential customer would increase by \$13.04 and the average monthly bill for a southern zone residential customer would increase by \$23.97.

The impact of full equalization on residential rates is even more dramatic when the average monthly bill impact is computed on an annual basis. The average monthly bill for northern and southeastern residential customers would decrease by \$6.60, while IPC zone residential customers would experience a \$156.48 annual increase and southern zone residential customers a \$287.64 annual increase. The

numbers demonstrate that immediate equalization in temporary rates would not substantially reduce monthly or annual average bills of northern and southeastern zone residential customers, while substantially increasing bills for other residential customers.

In balancing all the factors, the Board will adopt IPL's general approach to rate design with the following modifications. Increases for the higher-priced northern zone rate groups, IPC farm group, and IPC lighting group shall be limited to 90 percent of the increase they would have received under IPL's allocation method. The resulting 10 percent revenue increase remainder from these groups shall be allocated to the remaining lower-priced rate zones and rate groups within the customer class, on a uniform dollar per kWh basis. However, these further allocations to the lower-priced rate groups shall also be limited, such that: a) the resulting total average revenue per kWh for the group is not pushed above the class average, and b) the total revenue increase for each group is less than 20 percent. If there is a conflict between the limits for the lower-priced rate groups and the limits for the higher-priced rate groups, the limits for the lower-priced rate groups shall be controlling, within each class.

This modified approach will make additional progress toward rate equalization by reducing not only the percentage differentials but also the actual dollar differentials. For example, the current average 3.38-cent per kWh differential between northern and southern zone residential rates will be reduced by approximately 7.4 percent. Similarly, the current 0.69-cent per kWh differential

between northern and southern zone large general service (industrial) rates will be reduced by approximately 12.5 percent. This is on top of the more than 25 percent reduction in the differential accomplished in the prior rate case, Docket Nos. RPU-02-3 and RPU-02-8. Schedule J attached to this order shows the estimated changes by class rate group for temporary rates.

In the full rate case, IPL has proposed to take a small step toward rate equalization but has not offered a specific plan for completing the process. Meanwhile, the CCRF has proposed full equalization in this case. As mentioned previously, however, the existing disparities were not created overnight and it may not be appropriate to eliminate them in a single step. The Board is interested in receiving evidence and argument in the full rate case regarding plans to eliminate the disparity over time. Therefore, IPL will be required to file proposals to eliminate zonal disparities over 3, 5, and 7 year periods, and other time periods IPL may select. The proposals may have different phase-in periods for the various customer classes because of disparity of impact of the phase-in for class members in lower-priced zones when compared to the relative benefit for class members in the higher-priced zones. Any mitigating factors that support a faster or slower phase-in either on a system-wide basis or for individual classes should be explained. The proposals should also address other related factors, such as rate structure consolidation and inter-class revenue shifts. Other parties are also invited to file plans. Plans will be due within 30 days from the date of this order, and responsive testimony to the various plans may be filed on or before August 16, 2004.

The final temporary rate issue regarding rate design involves the interruptible credits and the energy efficiency cost recovery (EECR) clause. IPL proposed to leave its design of interruptible credits unchanged for temporary rates, which means that interruptible credits will increase automatically by the same percentage as other elements of Large General Service (LGS) rate structures. Consumer Advocate opposes any increase in IPL's interruptible credits outside the context of IPL's ongoing energy efficiency proceeding in Docket No. EEP-02-38, which is specifically examining the interruptible credits.

IPL also proposes to transfer recovery of the interruptible credit increases from base rates to the EECR, similar to the revenue-neutral rate transfer made at the conclusion of Interstate's last rate case. Both Consumer Advocate and the ICC oppose this transfer to the EECR. The ICC believes that it shifts costs among customer classes, and Consumer Advocate believes it increases rates beyond what was described in IPL's customer notice.

A temporary increase in IPL's interruptible credits appears reasonable pending consideration of IPL's proposal to permanently detach interruptible credits from LGS base rate structures in final rates. IPL cited administrative difficulties and prior customer communications as reasons for allowing the credits to increase automatically, as proposed, rather than re-designing temporary rates to maintain the credits at current levels. However, to minimize confusion, recovery of the temporary interruptible credit increase should remain in temporary base rates, and not transferred to the EECR. Transfer of cost recovery to the EECR, or the lack of it, is

revenue-neutral, making the transfer unnecessary for temporary rate purposes. The temporary interruptible increases should be considered part of the overall temporary rate increase, and not included in IPL's annual EECR reconciliation.

IPL in its filing acknowledged that the new interruptible credit rider proposed for final rates will impact different interruptible customers differently. Therefore, additional information is needed for the Board to assess the customer impacts of IPL's proposal for final rates. For each interruptible customer for the test year, IPL will be required to provide the following:

1. The customer's rate zone and rate code;
2. Total rate revenue as lived (including EAC and EECR revenue);
3. Total base rate revenue as lived (not including EAC and EECR revenue);
4. Total interruptible credits as lived;
5. Total base rate revenue under IPL's initial proposed final rates (before transferring the cost of interruptible increases from base rates to the EECR);
6. Total interruptible credits under IPL's initial proposed final rates;
7. Total base rate revenue under IPL's alternative final rates and interruptible credit rider; and,
8. Total interruptible credits under IPL's alternative final rates or interruptible credit rider.

VII. CORPORATE UNDERTAKING

IPL filed a corporate undertaking with its temporary rate application. IPL has agreed to refund any temporary rates, with interest, which are collected that exceed final rates ultimately approved by the Board. This corporate undertaking is sufficient to ensure payment of any required refund and will be approved.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Temporary rates based on this order shall become effective as of the date of this order, pursuant to Iowa Code § 476.6(13) (2003). On or before 20 days from the date of this order, Interstate Power and Light Company shall file revised tariff sheets consistent with the attached schedules that produce a temporary rate increase not to exceed \$98,183,041. Attached to this order, and incorporated by reference, are schedules A through I, reflecting a total revenue requirement, income statement, rate base, interest synchronization, cash working capital, and cost of capital for temporary rates. The estimated increases by class rate group for temporary rates are attached as schedule H.
2. IPL's corporate undertaking is approved.
3. IPL shall file the information identified in this order with respect to its DAHP pilot program as soon as possible, but no later than October 1, 2004.
4. IPL shall provide the information identified in this order with respect to its interruptible credit rider proposal within 30 days from the date of this order.

5. IPL shall file rate equalization proposals pursuant to the discussion contained in this order within 30 days from the date of this order. Other parties may also file proposals. Responsive testimony to the proposals submitted shall be filed on or before August 16, 2004. All parties may file responsive testimony, not just those parties who submitted proposals.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 11th day of June, 2004.

**Interstate Power and Light
Revenue Requirement
Test Year Ended December 31, 2003**

<u>Line No.</u>	<u>Description (A)</u>			
1	Rate Base	1,508,811,941	329,881,496	
2	Rate of Return	9.015%	9.531%	
3	Return On Rate Base	136,019,397	31,441,005	167,460,402
4	2001 Net Operating Income			110,092,051
5	Income (Excess) Deficiency			57,368,351
6	Tax Effect			40,814,690
7	Revenue (Excess) Deficiency			98,183,041
8	Operating Revenue			915,994,755
9	Percent Increase/Decrease			10.72%
10	REVENUE REQUIREMENT			817,811,714

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
INCOME STATEMENT - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003**

Line No.	Description	(a) Actual Test Year Results	(b) Adjustments	(c) Adjusted Test Year Results	(d) Additional Revenues Required to Yield 9.108%	(e) Total Revenues Required to Yield 9.108%
					10.7%	
1	Operating revenues	921,408,303	(4,140,450) \$	917,267,853 \$	98,183,041 \$	1,015,450,894
	Operating expenses:					
2	Operation expenses	494,517,020	(16,729,465)	477,787,555		477,787,555
3	Maintenance expenses	61,511,998	9,075,179	70,587,177		70,587,177
4	Depreciation and amortization	136,596,853	18,306,314	154,903,167		154,903,167
5	Property taxes	34,021,368	6,897,027	40,918,395		40,918,395
6	Miscellaneous taxes	7,390,474	359,623	7,750,097		7,750,097
	Income taxes -					
7	Current federal	30,296,361	(19,566,873)	10,729,488	30,888,385	41,617,873
8	Current state	12,874,774	1,586,041	14,460,815	9,926,305	24,387,120
9	Deferred	29,455,576	3,851,099	33,306,675		33,306,675
10	Investment tax credits	(3,267,567)	0	(3,267,567)		(3,267,567)
11	Total operating expenses	803,396,857	3,778,945	807,175,802	40,814,690	847,990,492
12	Operating income	118,011,446	(7,919,395) \$	110,092,051 \$	57,368,351 \$	167,460,402
	Rate Base:					
13	Emery Generating Station	0	329,881,496	329,881,496		329,881,496
14	All Other	1,463,330,333	45,481,608	1,508,811,941		1,508,811,941
15	Total Rate base	1,463,330,333	375,363,104 \$	1,838,693,437		1,838,693,437
16	Cost of Capital:	8.065%		5.988%		
17	Emery Generating Station					9.531%
18	All Other					9.015%

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Line No.	Brief Description of Adjustment:	Emery Generating Station	Alliant Energy Tower Capital Lease Treated as if an Operating Lease	Six Sigma Savings	iDEN IPL Project Expenses	Delivery Replacement Program Expenses	Combustion Initiative Expenses	Eliminate Red Cedar Expenses	Adjust Depreciation for Major Adds	Adjust Revenues and Expenses for Minor Adds
1	Operating Revenues							\$0	1,998,055	0
	Operating Expenses:									
2	Operation Expense	(8,194,224)	1,133,104	0	0		0	(359,856)	425,640	0
3	Maintenance Expense	6,197,875		0		0		(106,519)		
4	Depreciation and Amortization	14,009,209	(256,798)		0	0	0	(430,848)	3,036,215	0
5	Property Taxes	1,667,920						(233,563)		
6	Miscellaneous Taxes	72,918								
	Income Taxes-									
7	Current Federal at 31.46%	(7,779,955)	(275,686)	0	0	0	0	355,745	(460,511)	0
8	Current State at 10.11%	(2,500,170)	(88,595)	0	0	0	0	114,322	(147,990)	0
9	Deferred	3,841,591								
10	Investment Tax Credit									
11	Total Operating Expense	7,315,164	512,025	0	0	0	0	(660,718)	2,853,354	0
12	Operating Income	(7,315,164)	(512,025)	0	0	0	0	660,718	(855,299)	0

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
Line No.	Brief Description of Adjustment:	Project Eliminations	Major Changes to Insurance Expense	Other Post-Employment Benefits	Pension Expense	Employee Medical and Dental Premiums	Salary and Wages	Injuries & Damages Expense to a 5-Year Average	Interest on Customer Deposits	IUB / OCA Remainder Assessment
1	Operating Revenues									
	Operating Expenses:									
2	Operation Expense		455,107	(304,164)	(807,225)	605,294	2,319,632	(717,362)	123,251	256,722
3	Maintenance Expense						688,522			
4	Depreciation and Amortization	(83,375)								
5	Property Taxes									
6	Miscellaneous Taxes						225,378			
	Income Taxes-									
7	Current Federal at 31.46%	26,230	(143,177)	95,690	253,953	(190,425)	(1,017,269)	225,682	(38,775)	(80,765)
8	Current State at 10.11%	8,429	(46,011)	30,751	81,610	(61,195)	(326,910)	72,525	(12,461)	(25,955)
9	Deferred									
10	Investment Tax Credit									
11	Total Operating Expense	(48,716)	265,919	(177,723)	(471,662)	353,674	1,889,353	(419,155)	72,015	150,002
12	Operating Income	48,716	(265,919)	177,723	471,662	(353,674)	(1,889,353)	419,155	(72,015)	(150,002)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Line No.	Brief Description of Adjustment:	Normalize DAEC Refueling Outage Expenses	Rate Case Expenses	Levelize Transmission & Distribution Maintenance Expenses	Depreciation Study Update	Correct Meter Reading Error	Capacity Sales Contracts	Firm Wheeling Expense	Use Tax Audit Amortization
1	Operating Revenues					\$ 380,952	\$ (595,244)		
	Operating Expenses:								
2	Operation Expense	990,536	139,081					1,183,378	29,475
3	Maintenance Expense	2,295,301		0					
4	Depreciation and Amortization								
5	Property Taxes								
6	Miscellaneous Taxes								61,327
	Income Taxes-								
7	Current Federal at 31.46%	(1,033,724)	(43,755)	0	0	119,847	(187,264)	(372,291)	(28,566)
8	Current State at 10.11%	(332,198)	(14,061)	0	0	38,514	(60,179)	(119,640)	(9,180)
9	Deferred								
10	Investment Tax Credit								
11	Total Operating Expense	1,919,915	81,265	0	0	158,361	(247,443)	691,447	53,056
12	Operating Income	(1,919,915)	(81,265)	0	0	222,591	(347,801)	(691,447)	(53,056)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(aa)	(ab)	(ac)	(ad)	(ae)	(af)	(ag)	(ah)
Line No.	Brief Description of Adjustment:	Amortize over 3 years the revenue lag for rate base differences	Amortize Regulatory Mandated Study cost over 4 year period	Uncollectible Accounts Adjusted to a 5-year average	Eliminate Out-of-Period Unbilled Revenues	Neal Unit 4 Purchased Power Capacity Reductions	Recover TransLink Start-Up Costs over 3 years	Eliminate Advertising Expenses	MICP/EICP Awards
1	Operating Revenues	\$2,655,038							
	Operating Expenses:								
2	Operation Expense	361,357		245,234		(1,778,790)	0	(36,930)	(6,502,780)
3	Maintenance Expense								
4	Depreciation and Amortization		645,353						
5	Property Taxes								
6	Miscellaneous Taxes								
	Income Taxes-								
7	Current Federal at 31.46%	(113,683)	(203,028)	(77,151)	835,275	559,607	0	11,618	2,045,775
8	Current State at 10.11%	(36,533)	(65,245)	(24,793)	268,424	179,836	0	3,734	657,431
9	Deferred								
10	Investment Tax Credit								
11	Total Operating Expense	211,141	377,080	143,290	1,103,699	(1,039,347)	0	(21,578)	(3,799,574)
12	Operating Income	(211,141)	(377,080)	(143,290)	1,551,339	1,039,347	0	21,578	3,799,574

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(ai)	(aj)	(ak)	(al)	(am)	(an)	(ao)	(ap)
Line No.	Brief Description of Adjustment:	Decommissioning Expense -IUB Method	Eliminate Out-of-Period Income Taxes	Non-Property Deferred Income Taxes	Property Tax Expense	Reflect Impact of Final Rates from RPU-02-3	Adjustment to EAC Revenues due to Refund	Significant Load Changes	Second Nature Transaction
1	Operating Revenues					\$4,165,801	\$ 42,875	\$ (12,806,732)	\$ (314,671)
	Operating Expenses:								
2	Operation Expense							(5,926,959)	(368,986)
3	Maintenance Expense								
4	Depreciation and Amortization	1,386,558							
5	Property Taxes				5,462,670				
6	Miscellaneous Taxes								
	Income Taxes-								
7	Current Federal at 31.46%	(436,211)	(11,794,685)	6,150,419	(1,718,556)	1,310,561	13,488	(2,164,377)	17,087
8	Current State at 10.11%	(140,181)	4,083,715	1,976,503	(552,276)	421,162	4,335	(695,545)	5,491
9	Deferred		7,980,030	(7,970,522)					
10	Investment Tax Credit								
11	Total Operating Expense	810,166	269,060	156,400	3,191,838	1,731,723	17,823	(8,786,881)	(346,408)
12	Operating Income	(810,166)	(269,060)	(156,400)	(3,191,838)	2,434,078	25,052	(4,019,851)	31,737

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(aq)	(ar)	(as)	(at)		(au)	(av)
Line No.	Brief Description of Adjustment:	Expiration of Economic Development Contracts	Lost AEP Margins Through the EAC	Impact of Change to Interruptible Discounts	Impact on EAC and EECR Reconciliations	Resale Sales	Interest Synchronization	Total
1	Operating Revenues	\$369,277	\$ (153,349)	\$ 55,378	(\$395,110)	\$457,280		(4,140,450)
	Operating Expenses:							
2	Operation Expense							(16,729,465)
3	Maintenance Expense							9,075,179
4	Depreciation and Amortization							18,306,314
5	Property Taxes							6,897,027
6	Miscellaneous Taxes							359,623
	Income Taxes-							
7	Current Federal at 31.46%	116,175	(48,244)	17,422	(124,302)	143,860	(3,532,907)	(19,566,873)
8	Current State at 10.11%	37,334	(15,504)	5,599	(39,946)	46,231	(1,135,337)	1,586,041
9	Deferred							3,851,099
10	Investment Tax Credit							0
11	Total Operating Expense	153,509	(63,748)	23,021	(164,248)	190,091	(4,668,244)	3,778,945
12	Operating Income	215,768	(89,601)	32,357	(230,862)	267,189	4,668,244	(7,919,395)

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE
RATE BASE - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003**

Line No.	Description	(b) Thirteen Month Average	(c) Adjustments	(d) Adjusted Rate Base
Investment in plant:				
1	Utility plant in service	3,419,377,021	\$ 389,501,429	\$ 3,808,878,450
2	Accumulated provision for depreciation and amortization	(1,764,733,496)	(5,309,173)	(1,770,042,669)
3	Accumulated deferred income taxes	(216,577,478)	(1,174,024)	(217,751,502)
4	Customer advances for construction	(1,926,719)	-	(1,926,719)
5	Customer deposits	(1,507,789)	-	(1,507,789)
6	Unclaimed property	(5,727)	-	(5,727)
7	Accumulated provision for uncollectibles	(749,735)	(122,617)	(872,352)
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages	(2,466,295)	358,681	(2,107,614)
9	Accrued vacation	(3,764,767)	-	(3,764,767)
10	Accrued pension plan obligations	(3,879,784)	-	(3,879,784)
11	Total net investment in plant	1,423,765,231	383,254,296	1,807,019,528
Working capital:				
12	Materials and supplies inventory	26,771,298	0	26,771,298
13	Prepayments	3,295,471	0	3,295,471
14	Fuel inventory	30,861,956	376,283	31,238,239
15	Cash working capital requirements	(21,363,623)	(8,267,475)	(29,631,098)
16	Total net working capital	39,565,102	(7,891,192)	31,673,910
17	Total rate base	1,463,330,333	\$ 375,363,104	\$ 1,838,693,437
Rate Base:				
18	Emery Generating Station	0	\$ 329,881,496	\$ 329,881,496
19	All Other	1,463,330,333	45,481,608	1,508,811,941
20		1,463,330,333	\$ 375,363,104	\$ 1,838,693,437

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(a) Emery Generating Station	(b) Eliminate Alliant Energy Tower Capital Lease	(c) Six Sigma Savings	(d) iDEN IPL Project	(e) Delivery Replacement Program	(f) Combustion Initiatives	(g) Red Cedar Elimination
Investment in plant:								
1	Utility plant in service	\$340,419,136	(\$12,840,098)		\$0	\$0	\$0	(\$12,465,200)
2	Accumulated provision for depreciation and amortization	(7,004,604)	534,992		0	0	0	2,762,922
3	Accumulated deferred income taxes	(1,920,796)						746,772
4	Customer advances for construction							
5	Customer deposits							
6	Unclaimed property							
7	Accumulated provision for uncollectibles							
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages							
9	Accrued vacation							
10	Accrued pension plan obligations							
11	Total net investment in plant	331,493,736	(12,305,106)	0	0	0	0	(8,955,507)
Working capital:								
12	Materials and supplies inventory			0				
13	Prepayments							
14	Fuel inventory	376,283						
15	Cash working capital requirements	(1,988,523)						
16	Total net working capital	(1,612,240)	0	0	0	0	0	0
17	Total rate base	329,881,496	(12,305,106)	0	0	0	0	(8,955,507)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(h)	(i)	(j)	(k)	(l)	(m)	(n)
Line No.	Brief Description of Adjustment:	Uncollectible Accounts	Injuries & Damages	Adjust for Major Adds	Adjust for Minor Adds	Project Eliminations	Cash Working Capital	Total
Investment in plant:								
1	Utility plant in service			\$76,126,192	\$0	(1,738,601)		\$389,501,429
2	Accumulated provision for depreciation and amortization			(1,644,169)	0	41,687		(5,309,173)
3	Accumulated deferred income taxes							(1,174,024)
4	Customer advances for construction							
5	Customer deposits							0
6	Unclaimed property							0
7	Accumulated provision for uncollectibles	(122,617)						(122,617)
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages		358,681					358,681
9	Accrued vacation							0
10	Accrued pension plan obligations							0
11	Total net investment in plant	(122,617)	358,681	74,482,023	0	(1,696,914)	0	383,254,296
Working capital:								
12	Materials and supplies inventory							0
13	Prepayments							0
14	Fuel inventory							376,283
15	Cash working capital requirements						(6,278,952)	(8,267,475)
16	Total net working capital	0	0	0	0	0	(6,278,952)	(7,891,192)
17	Total rate base	(122,617)	358,681	74,482,023	0	(1,696,914)	(6,278,952)	375,363,104

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
PRO FORMA ADJUSTMENT TO REFLECT INTEREST SYNCHRONIZATION
INTERIM RATES
YEAR ENDED DECEMBER 31, 2003

<u>Line No.</u>			<u>Pro forma Adjustment</u>
1	Rate base	\$1,838,693,437	
2	Weight average cost of long-term debt	2.992%	
3	Interest on rate base	<u>55,013,708</u>	
4	Booked long-term debt interest	<u>43,783,869</u>	
5	Difference	<u>11,229,839</u>	
6	Federal income tax adjustment		<u>\$ (3,532,907)</u>
7	State income tax adjustment		<u>\$ (1,135,337)</u>

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
DETERMINATION OF CASH WORKING CAPITAL REQUIREMENTS - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003**

		<u>Days of Lag</u>						
<u>Estimated revenue lag:</u>								
1	Metering period		15.2					
2	Processing bills		2.3					
3	Collection period		24.9					
4	Total		42.4					
		(1)	(2)	(3)	(4)	Pro Forma Adjustment		
		Amount	Expense Per Day (1)/365	Days Cash Required	Cash Requirement (2) x (3)	(5) Pro forma Amount	(6) Expense Per Day (5)/365	(7) Cash Req. for Adjust. (3) x (6)
<u>Type of Expense</u>								
Labor:								
5	Bi-weekly	\$ 78,531,327	\$ 215,154	29.4	\$ 6,325,528			
6	Total Labor	78,531,327	215,154	29.4	6,325,528	\$ 3,008,154	\$ 8,242	\$ 242,315
Fuel Burned:								
7	Coal, including freight	112,538,199	308,324	18.2	5,611,497			
8	Oil	4,581,120	12,551	14.8	185,755			
9	Natural Gas	15,956,255	43,716	5.4	236,066			
10	Furfural Residue	(127,788)	(350)	(6.8)	2,380			
11	Methane Gas	259,947	712	(1.1)	(783)			
12	Nuclear Fuel	15,071,223	41,291	(33.7)	(1,391,507)			
Other (for pro forma adjustment only)						(5,892,946)	(16,145)	(184,053)
13	Total Fuel Burned	148,278,956	406,244	11.4	4,643,408	(5,892,946)	(16,145)	(184,053)
14	Electricity purchased	152,043,211	416,557					
15	Off-system sales	(34,493,907)	(94,504)					
16	Electricity Purchased, net	117,549,304	322,053	15.2	4,895,206	(1,778,790)	\$ (4,873)	\$ (74,070)
Other operation and maintenance								
17	Total operation and maintenance	541,246,623	1,482,867					
18	Less: Labor	78,531,327	215,154					
19	Fuel Burned	148,278,956	406,244					
20	Electricity purchased before Off-system sales	152,043,211	416,557					
21	Total Other Operation and Maintenance	162,393,129	444,913	(4.0)	(1,779,652)	(994,354)	(2,724)	10,896
Other:								
22	Property taxes	34,021,368	93,209	(321.2)	(29,938,731)	5,229,107	14,326	(4,601,511)
23	Federal income taxes	30,296,361	83,004	4.4	365,218	19,101,467	52,333	230,265
24	State income taxes	12,874,774	35,273	(10.6)	(373,894)	14,012,516	38,390	(406,934)
25	Interest on long-term debt	43,783,869	119,956	(48.9)	(5,865,848)	11,229,839	30,767	(1,504,506)
26	Preferred dividends	10,968,431	30,050	(3.3)	(99,165)			
27	FICA taxes	7,250,794	19,865	26.5	526,423	286,705	785	20,803
28	Federal unemployment taxes	61,341	168	97.1	16,313			
29	State unemployment taxes	78,339	215	73.7	15,846			
30	External decommissioning func	10,753,349	29,461	(3.2)	(94,275)	1,386,558	3,799	(12,157)
31	Total Other	150,088,626	411,201	(86.2)	(35,448,113)	51,246,192	140,400	(6,274,040)
32	Total	\$ 656,841,342	\$ 1,799,565	(11.9)	\$ (21,363,623)	\$ 45,588,256	\$ 124,900	\$ (6,278,952)

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE COST OF CAPITAL - EMERY GENERATING STATION
YEAR ENDED DECEMBER 31, 2003

Interstate Light and Power Company				
	Amount	13-Mo. Ave DL COC Ratio	Cost	WACC
L-T debt	853,163,856	44.096%	6.785%	2.992%
Pref Stk	156,543,843	8.091%	8.554%	0.692%
Com Eq	925,064,202	47.813%	12.230%	5.847%
	<u>1,934,771,901</u>	<u>100.000%</u>		<u>9.531%</u>

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE COST OF CAPITAL - OTHER THAN EMERY GENERATING STATION
YEAR ENDED DECEMBER 31, 2003

Interstate Light and Power Company				
	Amount	13-Mo. Ave DL COC Ratio	Cost	WACC
L-T debt	853,163,856	44.096%	6.785%	2.992%
Pref Stk	156,543,843	8.091%	8.554%	0.692%
Com Eq	925,064,202	47.813%	11.150%	5.331%
	<u>1,934,771,901</u>	<u>100.000%</u>		<u>9.015%</u>

**INTERSTATE POWER AND LIGHT COMPANY
TEMPORARY RATES
ESTIMATED INCREASES BY CUSTOMER CLASS RATE GROUP**

	Estimated Current Total Rate Revenue In \$ per kWh	Estimated Percent Increase	Estimated Temporary Total Rate Revenue In \$ per kWh
<u>Residential</u>			
IES - North	\$ 0.1030	10.3%	\$ 0.1135
IPC	\$ 0.0848	15.3%	\$ 0.0978
IES - South	\$ 0.0702	18.5%	\$ 0.0832
Class Average	<u>\$ 0.0905</u>	<u>13.0%</u>	<u>\$ 0.1023</u>
<u>General Service</u>			
IES - North (Farm)	\$ 0.0917	9.9%	\$ 0.1007
IPC (Farm)	\$ 0.0877	10.3%	\$ 0.0967
IES - North	\$ 0.0843	10.7%	\$ 0.0933
IES - Southeast	\$ 0.0776	15.0%	\$ 0.0892
IES - South	\$ 0.0677	17.5%	\$ 0.0795
IPC	\$ 0.0672	17.6%	\$ 0.0791
IPC (Oth Pub Auth)	\$ 0.0603	19.7%	\$ 0.0721
Class Average	<u>\$ 0.0792</u>	<u>12.7%</u>	<u>\$ 0.0892</u>
<u>Large General Service</u>			
IES - North	\$ 0.0474	8.3%	\$ 0.0514
IPC	\$ 0.0441	10.9%	\$ 0.0489
IES - South	\$ 0.0405	11.8%	\$ 0.0453
Class Average	<u>\$ 0.0447</u>	<u>9.8%</u>	<u>\$ 0.0491</u>
<u>Bulk Power</u>			
IPC	\$ 0.0357	8.1%	\$ 0.0386
<u>Lighting</u>			
IES - North	\$ 0.1597	13.2%	\$ 0.1808
IPC	\$ 0.1590	13.3%	\$ 0.1801
IES - South	\$ 0.1341	19.9%	\$ 0.1608
Class Average	<u>\$ 0.1530</u>	<u>14.8%</u>	<u>\$ 0.1755</u>
<u>Total Company</u>	\$ 0.0611	11.5%	\$ 0.0681